

**LODI CITY COUNCIL
SHIRTSLEEVE SESSION
CARNEGIE FORUM, 305 WEST PINE STREET
TUESDAY, MARCH 31, 2009**

A. Roll Call by City Clerk

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, March 31, 2009, commencing at 7:02 a.m.

Present: Council Member Hitchcock, Council Member Johnson, Mayor Pro Tempore Katzakian, Council Member Mounce, and Mayor Hansen

Absent: None

Also Present: City Manager King, City Attorney Schwabauer, and City Clerk Johl

B. Topic(s)

B-1 Water and Wastewater Utility Status Report (PW)

City Manager King briefly introduced the subject matter of the water and wastewater utility status report.

Public Works Director Wally Sandelin provided a PowerPoint presentation regarding the water and wastewater utility status. Specific topics of discussion included the background for water, water funds overview, water operations costs and revenues, ten-year proposed expenditure plan for water, expenditure plan criteria, future Shirtsleeve presentations, wastewater background, wastewater funds overview, challenges, operation costs and revenues for wastewater, wastewater operating expenses, impact mitigation expenses, ten-year proposed expenditure plan for wastewater, recommendation, and next steps.

In response to Council Member Hitchcock, Mr. Sandelin stated \$13 million is undesignated, the revenues have gone into the operating expenses, some members of the Council have viewed the funding to be only for infrastructure replacement, and the recommendation is to make it available for everything.

In response to Council Member Mounce, Mr. Sandelin stated she is correct in her statement that the City has been collecting funds marked on the billing for infrastructure replacement and the public may have an expectation that the funds are being used solely for that purpose.

In response to Council Member Johnson, Mr. Sandelin stated the current staff is capable of administering and completing about a \$2 million size project every year without the need for additional assistance and the recommendation is to alternate and do a \$2 million water project one year and a \$2 million wastewater project the next year.

In response to Council Member Hitchcock, Mr. Sandelin confirmed that the City is collecting approximately \$2.5 million on the water side and \$2.6 million on the wastewater side.

In response to Mayor Hansen, Mr. Sandelin confirmed that the proposed plan is to charge the homeowner for the water meter only, and the additional costs associated with the lateral improvements would be borne by the utility.

In response to Council Member Hitchcock, Mr. Sandelin stated staff will be coming back to Council with a detailed water meter installation plan and program, which will include information regarding some homes that already have laterals in front but may need upgrading and some

homes that have laterals in the back that need to be moved to the front.

In response to Council Member Hitchcock, Mr. King stated in terms of the equity issue everyone universally is paying for the water meters; although, there is a wide variation for the lateral systems, which may be absorbed by the utility. He confirmed that the recommendation is to do a \$2 million project for every year, alternating between water and wastewater every other year. Mr. Sandelin stated the \$10 million figure represents \$2 million projects done over a five-year period.

In response to Council Member Johnson, Mr. Sandelin stated the infrastructure replacement program is applicable to the City at large and not just the east side of town and the replacement is based on main sizes Citywide.

In response to Mayor Pro Tempore Katzakian, Mr. Sandelin stated a meter could last anywhere between 10 and 20 years and a replacement element will be incorporated into the plan.

In response to Council Member Mounce, Mr. Sandelin confirmed that the \$300 is a one-time fee for the initial meter installation.

In response to Council Member Hitchcock, Mr. Sandelin stated the water treatment facility is included in the current proposed rate structure and the total anticipated investment for the treatment plant is \$36 million with an annual operating cost of \$1.4 million.

In response to Council Member Hitchcock, Mr. King stated in 2005-06 staff brought forth the concept of a Community Facilities District (CFD) to the Council, there was an assumption to ensure the beneficial use of the water at the time of the Woodbridge Irrigation District contract, the best mechanism to capture the maximum water usage was through a CFD, the current market conditions make a CFD infeasible, the proposed model could incorporate debt service from a more traditional financing, and new revenues from future new development may defer rate increases for the future.

Discussion ensued between Council Member Hitchcock and Mayor Hansen regarding her understanding that the new facility was needed to accommodate new growth and his understanding that the new facility is needed regardless of new growth because of the ongoing shrinking of the underground water table and preservation for the future.

In response to Council Member Hitchcock and Mayor Hansen, Mr. Sandelin stated a Mello-Roos is not available under the current market conditions and if the City were to use a more traditional means of financing, it would need to show rate coverage that is adequate to cover debt service. He stated the decision on who will pay will come in the future.

General discussion ensued amongst Council and staff regarding the \$1.2 million figure, specific line items on bills indicating collection for infrastructure replacement, replacement needs for a system that is over 100 years old, an infrastructure program expanding over a 16-year time period, and the issue of earmarking money for a specifically designated purpose versus applying the funding generally.

Discussion ensued between Council Member Mounce, Council Member Hitchcock, and Mayor Hansen regarding shifting priorities and funding, making adjustments for over collecting, and the personal affect on the average citizen.

In response to Council Member Mounce, Mr. Sandelin stated the proposed model would cover a contingency plan for aging infrastructure failing.

In response to Council Member Mounce, Mr. Sandelin confirmed that a rate increase would only be applicable if there was not enough funding and funding was not allocated to the water treatment facility.

In response to Council Member Hitchcock, Mr. Sandelin stated \$2.7 million is collected for PCE/TCE, initial capital costs are \$10 million, and ongoing operating costs are \$1 million. Mr. Sandelin stated over a ten-year period the entire amount will be spent.

In response to Council Member Hitchcock, Mr. King stated a program should maintain the capacity of wastewater, rate models are complicated, it takes some time to see if a rate model is performing as it should, there is no revenue generation for the debt service component, an accounting piece has been caught up, and the five-mile transmission replacement was not a part of the rates.

In response to Council Member Mounce, Mr. Sandelin stated adjustments were not made in the operating funds in conjunction with other adjustments in 2005, which may attribute to the 2005 deficit.

In response to Mayor Hansen, Mr. Sandelin stated the proposed model is a blend of sorts and similar to the industry standard used in other communities. He stated the matter will be coming back to Council for consideration on April 15 and will go through the Proposition 218 process.

In response to Council Member Hitchcock, Mr. Sandelin confirmed the listed challenges in the presentation are reasons for operating in the red. Mr. King stated the rate model did not produce as it should have, the monthly revenues were inadequate to cover monthly expenditures, and the Consumer Price Index does not take into account regulations and mandates. Mr. Swimley stated the City has been hit with significant mandates and needs for improvements over the last five years. Mr. Sandelin confirmed the 11% includes capital costs and debt service and there is no relationship to PCE/TCE.

In response to Council Member Mounce, Mr. Sandelin confirmed that the proposed plan is to do a \$2 million infrastructure project every other year for wastewater.

In response to Council Member Johnson, Mr. Sandelin stated the 25% for reserves appears to be the standard in the industry.

In response to Council Member Hitchcock, Mr. Sandelin stated \$2.6 million is collected for infrastructure in wastewater.

In response to Council Member Hitchcock, Mr. Sandelin stated not very much has been spent on actual construction of projects because everything was being spent on operating.

In response to Council Member Hitchcock, Mr. Sandelin stated pipe bursting is not currently being done because staff is doing lining projects instead based on the different needs of the infrastructure.

In response to Council Member Hitchcock, Mr. Sandelin stated that the proposal is \$2 million every other year for water and wastewater.

In response to Council Member Johnson, Mr. Schwabauer stated the public hearing notice is required to be published in a newspaper to encourage public participation. Mr. King stated the public hearing will likely be set in April and held in May.

General discussion ensued between Council and staff regarding bringing back to the Council for

consideration the proposed model and two additional proposals, one that includes adjustments for over collection and one that does not take into account a new water treatment facility.

In response to Council Member Hitchcock, Mr. Schwabauer stated the notice for the hearing will be published and list the proposed rates pursuant to law.

C. Comments by Public on Non-Agenda Items

None.

D. Adjournment

No action was taken by the City Council. The meeting was adjourned at 8:37 a.m.

ATTEST:

Randi Johl
City Clerk



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Water and Wastewater Utility Status Report

MEETING DATE: March 31, 2009

PREPARED BY: Public Works Director

RECOMMENDED ACTION: None.

BACKGROUND INFORMATION: Staff will present an overview report on the Water and Wastewater Utilities, as requested by the City Council at the November 1, 2008 and December 2, 2008 Shirtsleeve meetings.

FISCAL IMPACT: None.

FUNDING AVAILABLE: Not applicable.

A handwritten signature in cursive script, reading "F. Wally Sandelin".

F. Wally Sandelin
Public Works Director

FWS/pmf

APPROVED:

A handwritten signature in cursive script, reading "Blair King".

Blair King, City Manager

The City of Lodi
**Public Works
Water Services**



Status Report Water Utility

Shirtsleeve
March 31, 2009

Background



- December 2, 2008 Shirtsleeve
- Operations Fund is operating at a surplus of \$1.0 million/year
- All Customers pay for their water meter
- PCE/TCE Cleanup Costs better defined



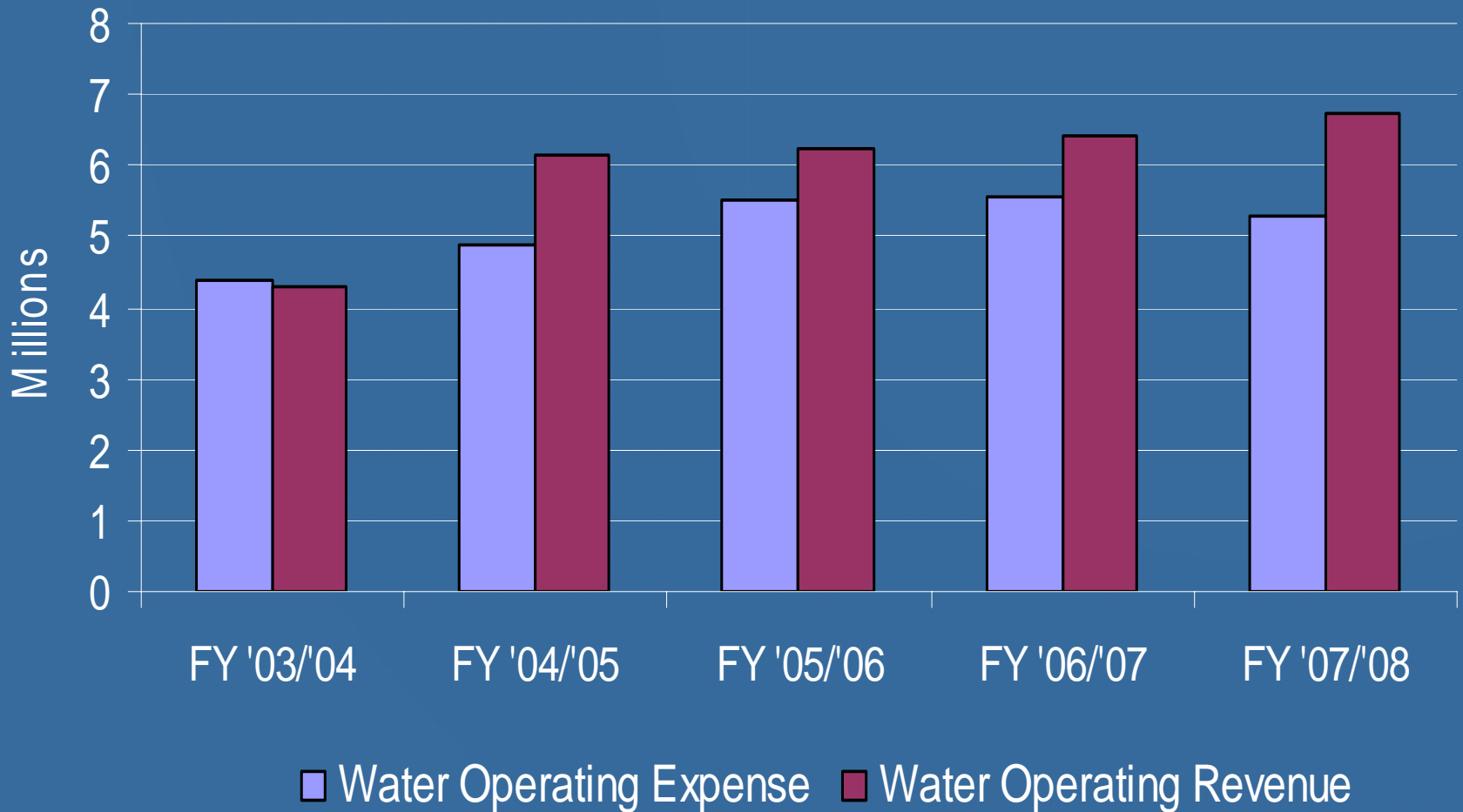
Water Funds Overview

(Estimated June 30, 2009)

1.	Operations Fund (180)	\$ 2,320,540
2.	Utility Capital (181)	\$10,924,021
	Subtotal	\$13,244.561
➤	Impact Mitigation Fees (182)	\$ 244,618
➤	PCE/TCE (184)	\$10,738,054



Operations Costs and Revenues





Ten Year Proposed Expenditure Plan

Current Rates Plus Inflation Adjustments

- \$21 Million - PCE Capital and O&M
- \$24 Million Infrastructure Replacement Program
 - 50,000 feet of mains
 - 14,000 new/upgraded service laterals
 - Customers pay \$300 per meter set
- Capital and O&M for Water Treatment Plant – Starting 2011



Expenditure Plan Criteria

- All Revenues Collectively Available
- Current Rates Plus Inflation Adjustments

Alternative

- Additional Rate Increases for Individual Line Items



Future Shirtsleeve Presentations

- Water Meter Installation Program
 - Schedule
 - Costs
 - Metered Rate Structure

- PCE Capital and Operations Program

- Surface Water Treatment Plant Finance Plan



Questions?

The City of Lodi
**Public Works
Water Services**



Status Report Wastewater

Shirtsleeve
March 31, 2009

Background



- November 11, 2008 Shirtsleeve
- Operations Fund is operating at significant loss - \$2.0 million/year
- Allocated Past Debt Service to appropriate sub-funds
- New Development share of debt service will fall behind in 2010-2011
- Do Nothing & Fix It Alternatives



Wastewater Funds Overview

(Estimated June 30, 2009)

1. Operations Fund (170)	(\$10,239,142)
2. Utility Capital (171)	\$17,077,554
3. Capital Reserve Fund (172)	(\$ 3,955,688)
Subtotal	\$ 2,842,742
➤ White Slough COP Proceeds	\$ 4,625,945
➤ Impact Mitigation Fees (173)	\$ 246,766

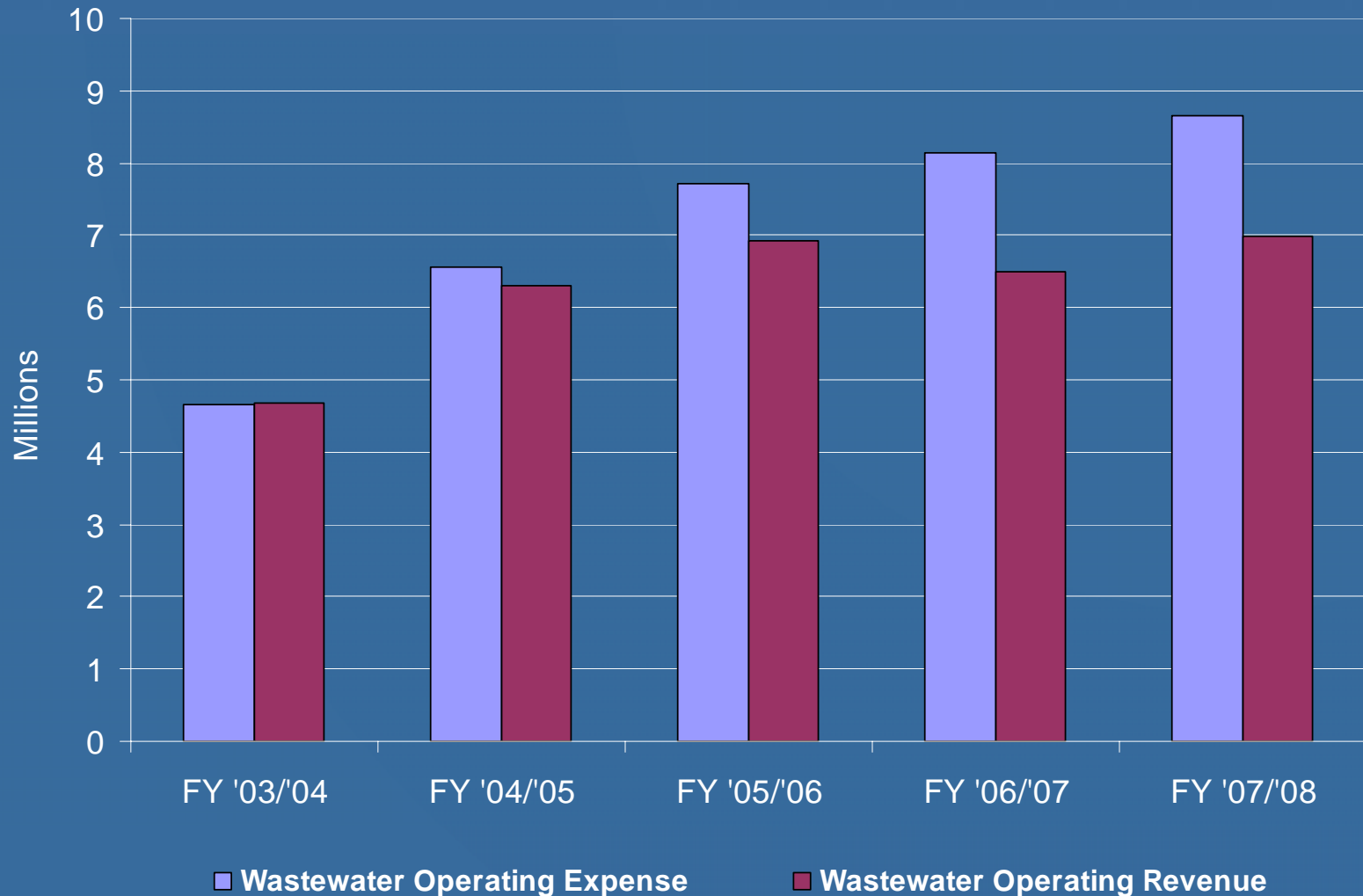
Challenges



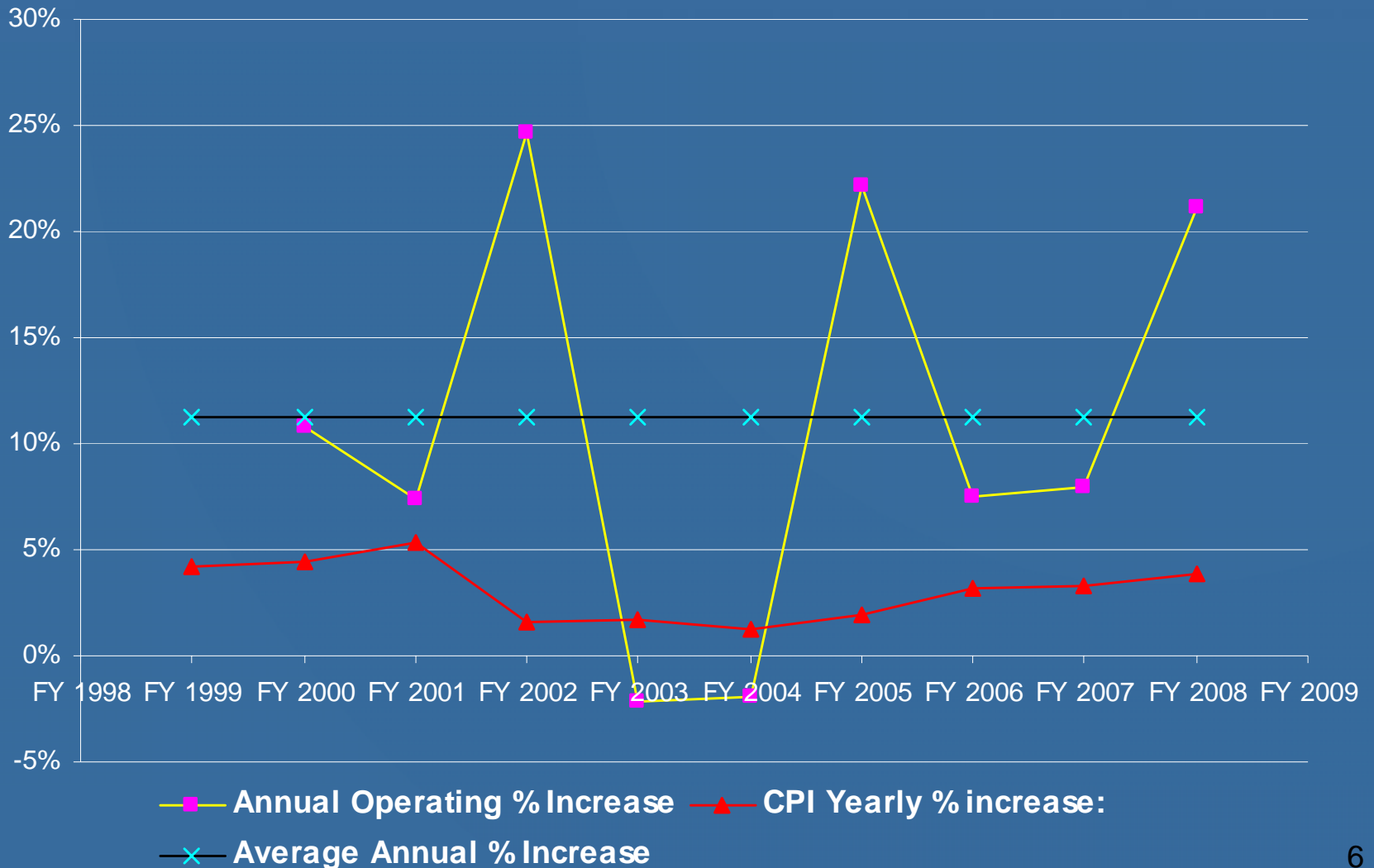
- Revenues Over-Estimated Since 2004
\$1.5 million/year
- Operations Costs Inflating Faster Than CPI
11% vs 4%
- IMF Revenues SHORT of Debt Service
\$6 million by 2013
- Deficit Growing
\$2 million FY 08/09
- Debt Service Prior to 2004
\$4 million



Operation Costs and Revenues



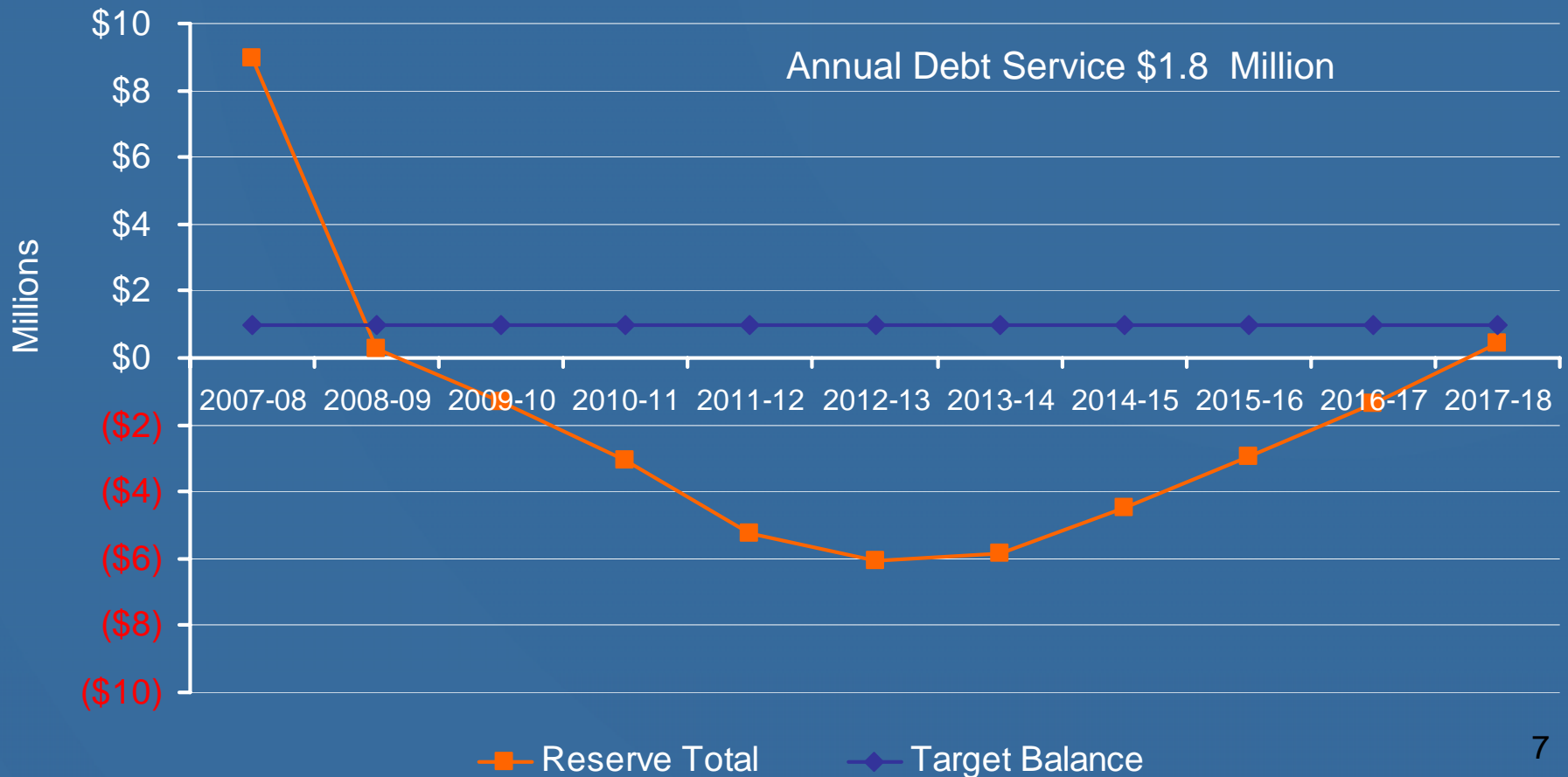
Operating Expenses





Impact Mitigation Fees (173)

Year-Ending Reserve Balance - Impact Fund (173)





Ten Year Proposed Expenditure Plan

Current Rates Plus Rate Adjustments

- \$10 Million Infrastructure Replacement Program
 - 70,000 feet of rehabilitated mains
- \$4.6 Million White Slough Improvements
- Fix Operation Deficit In 5 years - **\$10,239,142**
- Pay Pre-2004 Debt In 4 years - **\$3,955,688**
- Future Development Debt Service - **\$6,048.044**
- Create 25% Operating Reserve - \$1,800,000



Recommendation

- All Revenues Collectively Available
 - Current Rates Increase – Lower
- | | |
|-----|----------|
| 25% | FY 09/10 |
| 20% | FY 10/11 |
| 10% | FY 11/12 |
| 5% | FY 12/13 |
| 0% | FY 13/14 |

Alternative

- Additional Rate Increases for Individual Line Items
 - Current Rates Increase – Higher
- | | |
|-----|----------|
| 50% | FY 09/10 |
| 25% | FY 10/11 |
| 25% | FY 11/12 |
| 0% | FY 12/13 |
| 0% | FY 13/14 |

Next Steps

- Set Public Hearing To Consider New Wastewater Rate Schedule
- Initiate Proposition 218 Process
- Implement New Wastewater Rates as Approved



Questions?